



**COMMISSION
AGENDA MEMORANDUM**

Item No.

6e

ACTION ITEM

Date of Meeting

September 24, 2019

DATE: August 23, 2019

TO: Stephen P. Metruck, Executive Director

FROM: Melinda Miller, Director, Portfolio & Asset Management
Rebecca Schwan, Senior Real Estate Manager

SUBJECT: Second Amendment to the Ground Lease with Duke's Chowderhouse, LLC. at Shilshole Bay Marina

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute the second amendment to the ground lease with Duke's Shilshole Bay Chowder House, LLC to change the following: (1) to increase the square footage of the amended ground lease by 1,178 square feet for a total of 9,200 square feet; (2) to increase the base monthly rent during the Construction Phase from \$3,216/month to \$4,188/month and during the Post-Construction Phase from \$12,864/month to \$14,753/month; (3) to defer payment of the Post-Construction Phase Rent from December 1, 2019 to May 1, 2021; and (4) extend the term of the agreement to April 30, 2041.

EXECUTIVE SUMMARY

The intent of this request is to accommodate the revised design and schedule of Duke's restaurant development at Shilshole Bay Marina. Duke's has leased a development pad for construction of their flagship restaurant and the design and engineering have been considerably more challenging than they expected due to soil conditions, design changes, and the construction market. They have updated their schedule based on current permitting and construction estimates. The restaurant is now scheduled to open in May 2021.

Duke's has requested the following:

- Revert to a revised "Construction Phase Rent" from December 1, 2019 through April, 2021
- Begin "Post-Construction Phase Rent" on May 1, 2021, the updated opening date
- Extend the lease term to May 2041 to accommodate the design, permitting and construction delays

In addition, the Port has requested that:

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- Duke’s increase their square footage from 8,022 square feet to 9,200 square feet to allow for operational access area of three feet around the perimeter of the building. Rent will be paid on this additional area.

JUSTIFICATION

Allowing this revision of the lease terms benefits the tenant by recognizing that the complexity of building on this particular site has created unanticipated delay. Allowing them to defer payment of full, post-construction rent for 17 months reduces the financial strain on a local, family-run business that is making a significant investment in this important amenity for the customers of Shilshole Bay Marina.

As required by the current lease, Duke’s has paid August and September 2019 rent at the full Post-Construction Phase amount of \$12,864 per month. If proposed changes are approved, this rent paid will not be refunded and they will pay two additional months (October and November 2019) at that rate. On December 1, 2019, they will change to a Revised Construction Phase Rent of \$4,188 per month through April 2021.

The Port also benefits directly from the increase in square footage of an area that cannot be leased to anyone else (three feet around perimeter of Duke’s existing site) and the additional rent that comes with that change. Post-Construction Rents will be escalated on an annual basis.

Adding time to the end of the lease term to allow the original 20 years for amortization gives the Port additional annually-escalated rent payments and improves the Net Present Value of the agreement with no additional cost to the Port.

DETAILS

The lease terms to be amended:

<u>Lease Term</u>	<u>Current Agreement</u>	<u>Amendment #2 eff. 12/1/19</u>
Premises	8,022 SF	9,200 SF
Construction Rent/month	\$3,216	\$4,188
Begin Post-Construct. Rent	August 1, 2019	May 1, 2021
Post-Construction Rent/month	\$12,864	\$14,753
Lease Expiration	July 31, 2038	April 30, 2041

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Deny the proposed revisions. Leave the lease as written.

Cost Implications: Forgo incremental rent on the proposed additional 1,178 square feet over the 20-year lease term

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Pros:

- (1) No delay in increase from Construction Rent to Post-Construction Rent
- (2) No additional administrative effort and cost in processing another Amendment

Cons:

- (1) Tenant will not have operational area around their building so will have to request access agreements or licenses when they need to use it (e.g. for exterior repair or cleaning).
- (2) Less rent to Port over the term of the lease

This is not the recommended alternative.

Alternative 2 – Grant proposed terms of Second Amendment

Cost Implications: No additional Port costs. Additional incremental rent over the 20-year lease term

Pros:

- (1) Will provide needed area for tenant’s operational access around the building so less administrative time and cost.
- (2) Will generate new incremental rent over the term of the lease.
- (3) Will allow tenant to amortize their improvements over a full 20-year term as initially intended.
- (4) Will support our good relationship with this tenant who is investing \$6+ million in this project.

Cons:

- (1) Postpones increase in rent by seventeen months

This is the recommended alternative.

FINANCIAL IMPLICATIONS

This is a ground lease and the development and construction costs are borne by the tenant. There are no incremental costs to the Port for this request.

Financial Analysis and Summary

Project cost for analysis	No incremental costs to the Port for this request
Business Unit (BU)	Maritime Portfolio Management
Effect on business performance (NOI after depreciation)	This amended lease agreement will generate the Total Cash Flow of \$4,723,230 for a 23-year lease term, an increase of \$950,314 as compared to the first amendment. The first year post-construction lease revenue for this amendment will be \$134,776.
IRR/NPV (if relevant)	NPV: This second amendment will generate a marginal NPV of \$384,204 for a total NPV of \$2,857,659 over the

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	extended lease term.
CPE Impact	N/A

Future Revenues and Expenses (Total cost of ownership)

Future revenues will be generated based on lease rates and terms stated above in the second amendment.

ATTACHMENTS TO THIS REQUEST

- (1) Draft Second Lease Amendment
- (2) Site Plan with new calculation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

January 9, 2018 – The Commission authorized First Amendment to the Ground Lease

May 9, 2017 – The Commission approved the Ground Lease with Duke’s Chowderhouse LLC.